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National Association of Purchasing Management

Report On Business®

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Purchasing Index Rises Dramatically

Production & New Orders Up

Prices Continue Upward Trend

Analysis by the Business Survey Committee; chairman, Robert J. Bretz, C.P.M., director of materials management, Pitney Bowes, Inc.

The *Report on Business* is published monthly by the National Association of Purchasing Management, based on data compiled from replies to questions asked of purchasing managers in some 250 industrial companies. Membership of the Business Survey Committee is diversified geographically, based on value added by state, and by Standard Industrial Classification category, based on each industry's contribution to national income.

May Report

The economy continued its growth in May, say the nation's purchasing managers in their latest **Report on Business.** As in March and April, all indicators were up except for inventories, which were stable. The rate of growth in production was only slightly lower than in April. New orders continued to increase, although at a somewhat slower pace. The speed of vendor deliveries slowed considerably, reflecting the growth of production as well as the gradual return of U.S. Steel to production after a lengthy strike. For the third consecutive month, employment continued to grow. More purchasers reported price increases than decreases for the ninth consecutive month. However, for the first time in four months, the rate of growth in price increases slowed.

The report was issued today by Robert J. Bretz, C.P.M., chairman of the National Association of Purchasing Management's Business Survey Committee, and director of materials management, Pitney Bowes, Inc. Mr. Bretz said, "The economy showed healthy growth in May, even without the aid of inventory growth (all indicators point in a positive direction). The growth in new orders virtually assures both a good second quarter and first half of 1987."

The **Purchasing Managers' Composite Index** expanded significantly to 57.5% from 54.2% in April, the tenth consecutive month this leading indicator has registered over 50%. This is the highest total since June 1984 (58.1%). The first five months of 1987 has averaged 54.7%. Mr. Bretz said, "Based on past experience, this could be consistent with real GNP growth of about 3.2% (if this average were to continue for the remainder of 1987)." A reading above 50% generally indicates that the economy is in an expanding phase; below 50%, that the economy is generally declinding. The index is based on analysis by the U.S. Department of Commerce. Except for this index, the information in this report is not seasonally adjusted.

Net Difference

In each category measured, this report shows a net difference. It is the difference between the number of responses in the positive direction (higher, better, faster) and the negative direction (lower, worse, slower). Analysis of the month-to-month difference compares the rate of change.

Employment

Employment increased in May for the third consecutive month. Prior to March, purchasers reported no growth in employment for 29 consecutive months. This third consecutive rise in employment is significant, even though the rate of growth is off somewhat from April. It mirrors the continued improvement in production and new orders.

	Higher	Same	Lower	Net Differ.
Employment %				
May	17	72	11	+ 6
April	22	66	12	+10
March	16	70	14	+ 2

Buying Policy

Leadtimes for production materials expanded in May for the fourth consecutive month, reflecting the continued increase in production. The number of members reporting leadtimes of 90-days-or-longer increased to 25% from 21% in April and 19% in March. Leadtimes for maintenance, repair and operating (MRO) supplies decreased as 85% of purchasers indicated leadtimes of 30-days-or-less, down from 88% in April. Leadtimes for capital expenditures declined somewhat for the third consecutive month as the number of purchasers reporting leadtimes of 6-months-and-longer dropped to 52% from 54% in April and 56% in March.

	Hand to Mouth	30 Days	60 Days	90 Days	6 Months and Longer
Production Materials %					
May	16	36	23	18	7
April	16	35	28	14	7
March	18	37	26	13	6
MRO Supplies %					
May	40	45	8	4	3
April	46	42	6	6	0
March	44	43	8	3	2
Capital Expenditures %					
May	13	7	11	17	52
April	11	5	13	17	54
March	13	5	12	14	56

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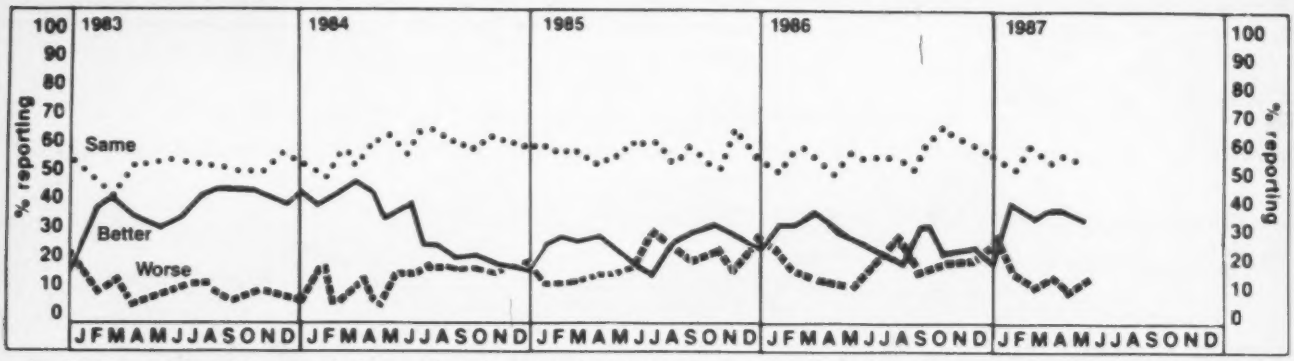
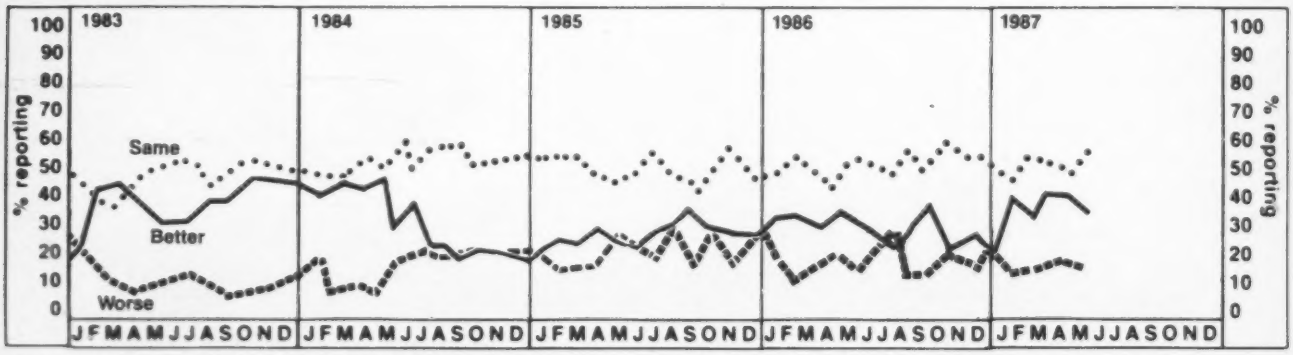
Production



Production continued to grow in May, although not at April's brisk pace. Nevertheless, by a margin of 3 to 1, more purchasers said their production was better (33%) than worse (11%).

Production %	Better	Same	Worse	Net
May	33	56	11	+22
April	35	57	8	+27
March	34	55	11	+23

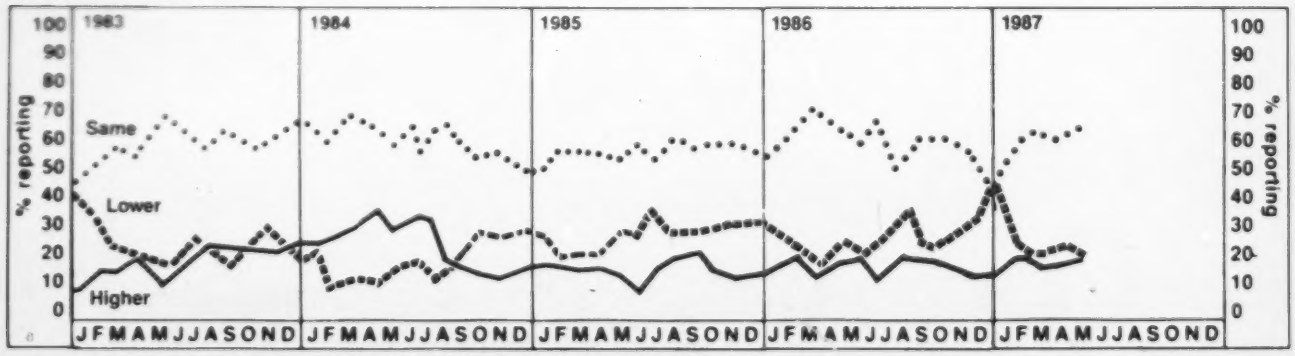
New Orders



New orders increased in May for the fifth consecutive month. Even though the rate of growth was not as vigorous as in April, it is strong enough to indicate healthy production in June and a good second quarter finish.

New Orders %	Better	Same	Worse	Net
May	34	55	11	+23
April	40	48	12	+28
March	41	50	9	+32

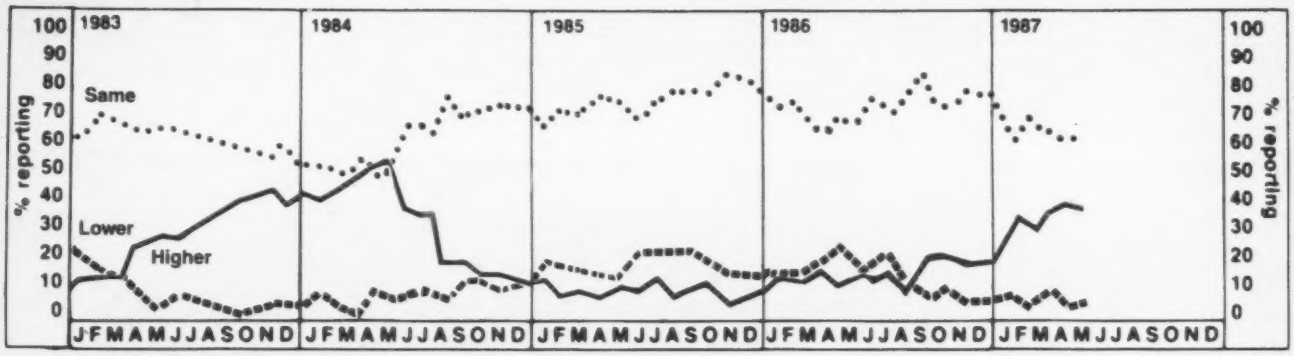
Inventories



After two consecutive months in which inventories have declined slightly, an equal number of purchasers (18%) indicated their inventories neither declined nor grew. This condition is similar to that of February, when an equal number of members (19%) said their inventories were neither higher or lower. Thus, the growth in production was not helped by a buildup of inventories.

Inventories %	Higher	Same	Lower	Net
May	18	64	18	0
April	17	62	21	− 4
March	16	65	19	− 3

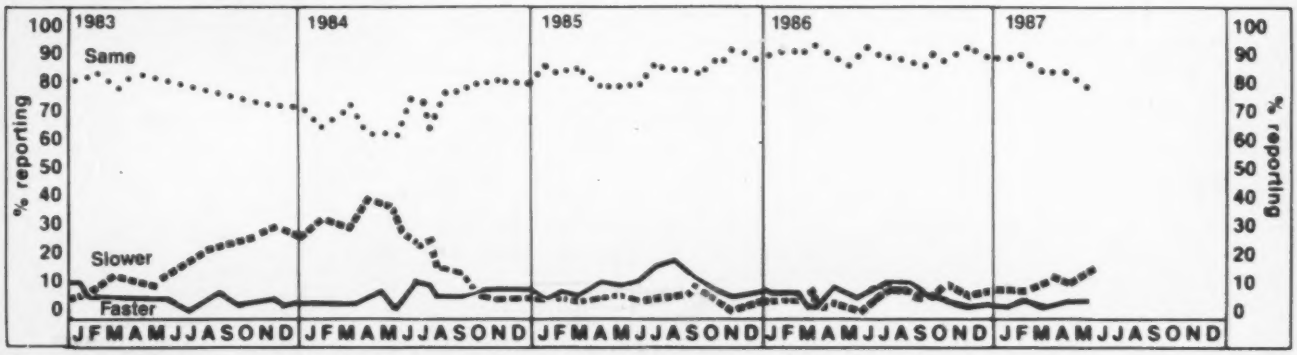
Prices



For the eighth consecutive month, more purchasers said they paid more rather than less for their purchases. Many members indicated that their higher prices were directly related to the lower value of the dollar, which caused their imports to increase in price, as well as the pressure from higher oil prices to increase petroleum-derived chemicals and plastic resins.

Prices %	Higher	Same	Lower	Net
May	38	59	3	+33
April	39	59	2	+37
March	32	62	6	+26

Vendor Deliveries



The speed of vendor deliveries slowed in May for the eighth consecutive month. The 16% reporting slower deliveries is the most since July 1984 (28%). While the lingering effects of the lengthy U.S. Steel stike has had an impact on vendor performance, the significance of the slowing in vendors' deliveries cannot be overlooked as a reflection of continued growth in production and new orders.

Vendor Deliveries %	Faster	Same	Slower	Net
May	7	77	16	– 9
April	7	82	11	– 4
March	5	82	13	– 8

Specific Commodity Changes

For the third consecutive month, steel and styrene were reported in short supply. The only item reported lower in price was natural gas (second consecutive month). Paper products were again reported higher in price with corrugated shipping containers up for the thirteenth time in the last fourteen months, and printing paper for the sixth consecutive month. Numerous metals were also up in price; steel (eighth time in the past nine months), aluminum (fourth consecutive month), copper (third consecutive month), and a precious metal, silver. A significant number of petroleum-derived chemicals were reported higher priced, particularly plastic-related chemicals. Up in price for the third consecutive month were styrene (and polystyrene), benzene, plastic resins, phenol and phenolic resins; caustic soda, a chemical used heavily in making paper for printing and corrugated cartons, was higher priced for the sixth time in the last nine months. Fuel oil was up in price (for the fourth time in the past five months), as was diesel fuel. Vegetable oils were reported higher priced for the second time in the last three months.

UP in Price: Corrugated shipping containers, printing paper, caustic soda (used heavily in petroleum refining and paper-making), aluminum, copper, steel (particularly hot and cold rolled sheets and steel plates), silver, fuel oil, diesel fuel, phenol and phenolic resins (used in making plastic products for housing and auto products), benzene (used as a chemical solvent and in gasoline), styrene and polystyrene (used chiefly in making synthetic rubber, resins and plastics), latex (used in synthetic rubber products), plastic resins and materials, polyethylene (used in making plastic products), polyproplene (thermoplastic plastics or fibers), many petroleum-derived chemicals, and vegetable oils (used in prepared foods).

DOWN in Price: Natural gas.

In SHORT Supply: Steel (particularly hot and cold rolled sheets), styrene and polystyrene.

The National Association of Purchasing Management's *Report on Business* records the actual changes and rates of change in five important categories of data: production, new orders, employment, inventories and vendor deliveries. These five components, as reported, are not adjusted to compensate for seasonal variations.

Economists have devised a variety of formulas to compensate data for seasonal variations. N.A.P.M. cooperates with the U.S. Department of Commerce, which prepares the monthly Purchasing Managers' Composite Index for publication by N.A.P.M. The Department of Commerce adjusts the five above-mentioned components of the *Report on Business*, applies various weights to each and combines them into a single index number. The Composite Index is based on analysis by the U.S. Department of Commerce, and is the only part of the report adjusted for seasonal variations.

Note: The next issue of the *Report on Business* will be available June 1, 1987.

Commodity Reports

Steel

Prepared by the N.A.P.M. Steel Committee; chairman, Daniel R. Krause, C.P.M., The Budd Company, Troy, MI.

The domestic steel industry appears to be stronger than it has been for a long time: most steelmakers are expected to report first-quarter 1987 profits, compared with year-earlier losses. Prices generally are up and, although they may weaken in the second half, they will probably finish the year at higher levels than at the end of 1986. Presently, prices are firm as buyers move to rebuild supplies depleted by the USX strike. This demand, however, is not likely to continue beyond the second quarter.

The N.A.P.M. steel survey for April reflects this current inventory build-up, with 50% of the respondents reporting steel inventories up 10% since the first of the year, 37% reporting inventory at the same level, and only 13% reporting a decrease. What's more interesting is that 50% of the respondents expect to decrease steel inventories over the next six months, 50% expect to maintain them, and none are planning to increase them. Moreover, most respondents expect no significant change in their own level of operations over the next three months.

Of significance too, is that leadtimes are lengthening and some tight supplies are developing. Within the next six months, steel buyers are anticipating shortages of coated sheets, hot rolled and cold rolled sheets, structural steel and plate.

Even though the steel industry seems to have gained ground, its future direction will depend on how the major steelmakers respond to market factors; this could include a reduced demand that if not managed properly may quickly send producers back into a tailspin.

Energy

Prepared by the N.A.P.M. Energy Committee; chairman, Howard T. Perley, C.P.M., International Paper Company, Memphis, TN.

Petroleum Products

Fuel oil prices increased early in the second quarter due to OPEC's adherence to production quotas and a weak dollar. Meanwhile, unseasonably cold weather, refinery turn-arounds, and a strong European market contributed to reduced residual and heating oil supplies. Although demand should decline with warmer weather, no significant price reductions are expected unless crude oil prices drop below $17 per barrel.

Natural Gas

Over the past three years, buyers able to purchase spot market gas have made big savings compared to the tariff prices charged by local utilities. However, spot prices have not stabilized. Moreover, significant reductions in utility prices occurred this spring, and more are likely. Many utilities are also increasing their standby charges for the privilege of resuming service if spot supplies are interrupted during the winter. Therefore, the price gap has started to narrow, and within two or three years may be minimal. (I. G. Mackenzie, C.P.M., Corning Glass Works, Corning, NY)

Coal

The coal industry continues to struggle with over-capacity, slow growth in the domestic market and a stagnant export market. A build-up of utility stocks to hedge against a potential strike in January 1988 has not yet occurred and is unlikely until much later in the year, if at all. Buyers should continue to purchase at low spot market prices, or contract at prices that are fixed for only one year or less. Buyers should also continue to study ways to negotiate lower transportation rates. Enactment of acid rain legislation appears to be unlikely this year. (W. T. Robertson, Jr., C.P.M., Duke Power Company, Charlotte, NC)

Electricity

Although generating capacity is more than adequate, utilities with summer peak loads may request cutbacks or curtail their interruptible customers on very hot days. Buyers should therefore be aware of their utility's reserve margin and the probability of mid-summer interruptions. Users — particularly cogenerators — should follow up on utility proposals to the Federal Energy Regulatory Commission which permit utilities to invite bids from private and other utility-owned cogenerators to supply their projected needs for additional power. In return, the utilities would provide transmission services to cogenerators seeking other potential utility buyers.